Governance Human Capital and CEO Dismissal: Exploring the Impact of Board Experience and Expertise

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Abstract: Decades of research on corporate boards and firm outcomes has yielded mixed results. Based primarily on agency theoretic models, the lack of clear and consistent findings has prompted scholars to develop additional theories to supplement and advance theory on corporate governance. Emerging from this effort is a line of research using human capital to further refine and extend the theoretical base of research on boards. Building on this body of research, this study explores the human capital of boards of directors and its impact on dismissal of the Chief Executive Officer (CEO). The resulting propositions explore the impact on CEO dismissal of CEO director human capital, financial industry human capital, and related industry human capital.

Introduction

Research on corporate boards has long been driven by agency-theoretic research, examining board characteristics' impact on firm performance. Early research distinguished between independent and non-independent directors based on their employment relationship with the focal firm conceptualizing independence as board outside directors. Meta-analysis (Dalton, Daily, Ellstrand, & Johnson, 1998) of this and other frequently used constructs reported no systematic statistical relationship between independence measured this way and firm performance. In addition, other studies based on the outsider/insider distinction have shown mixed results when examining board impact on other key firm outcomes. Moving beyond the board independence-performance linkage, research on board effectiveness has examined a broader set of firm outcomes including impact on post-acquisition stock performance of bidding firms (Byrd & Hickman, 1990), impact of outside director appointments on stock market reactions (Rosenstein & Wyatt, 1990), and CEO dismissal (e.g., Haleblian & Rajagopalan, 2006; Terjesen, Hellerstedt, Andersson, & Wennberg, 2013; Wiersema & Moliterno, 2006). At the core of these agency theory based investigations is an assumption that the position of directors with respect to the firm impacts board independence (Jensen & Zajac, 2004). Attempts to examine the board-firm outcomes linkage based on finer-grained measures of board characteristics have made some progress in explaining board effectiveness by supplementing agency theory with other theories and perspectives that more specifically describe the parameters of this position-based approach.

One such line of inquiry examines the role of human capital at the board level and how it may impact key firm outcomes. Human capital consists of the expertise, experience, knowledge, reputation, and skills (Becker, 1964; Coleman, 1988) of individuals and groups. The human capital that directors bring to the boards of firms include CEO experience, financial and venture capital experience, familiarity of specific events, industry experience, and overall focal firm familiarity (Johnson, S. Schnatterly, & Hill, 2013). Among the outcomes associated with human capital of the board are sales growth (Kor & Sundaramurthy, 2009), post-acquisition performance (Walters, Kroll, and Wright, 2008), changes to top management teams (TMT) (Boeker & Wiltbank, 2005; Bruton, Fried, & Hisrich, 1997), and CEO successions (Tian, Halbelian, & Rajagopalan, 2011). This study further explores the role of board human capital in CEO succession by examining one phase of that process, CEO dismissal. Building on theory and findings developed in prior research, the study proposes relationships between CEO directors' human capital, directors' financial industry experience, and related industry experience on the likelihood of CEO dismissal.

CEO Dismissal

The dismissal of the chief executive officer (CEO) of a firm is a critical juncture in the life of a firm. Given the size, complexity, pace of change, and organizations' role as societal actors (Kaysen, 1957), strategic leaders have become more important than ever (House, Spangler, and Woycke, 1991). Increasingly, the CEO has become the "face" of the corporation speaking on behalf of the organization to external constituents and transmitting information internally to organization members (Mintzberg, 1973; Hambrick & Cannella, 2004). In addition, the CEO is often viewed by the financial markets as the "primary determinant of corporate performance" (Wiersema, 2002: 70) credited with success in times of positive performance and blamed for failure in times of declining performance. The dismissal of a CEO is uniquely different in several respects from the discharge of any other type of organizational member. Often referred to rather euphemistically (Finkelstein, Hambrick, & Cannella, 2009) as a resignation or retirement rather than firing, the process also is not as simple and straightforward an exercise of organizational authority as with other organizational dismissals typically involving a coalition of internal and external players (e.g., activist shareholders, outside directors, and other financial market players) (James & Soref, 1981). Furthermore, replacement of the CEO is a key tool of corporate control (Fama, 1980), is often a traumatic event for the focal firm, and may require extraordinary conditions before the board of directors will act.

The board of directors is a pivotal player in the replacement of a CEO, a process clearly demonstrating the power and authority of the board (Mizruchi, 1983). Indeed, the replacement of the firm's key strategic leader is uniquely and singularly the domain of the board and, therefore, provides a critical juncture at which to examine both theoretically and empirically the impact of boards on firm outcomes (Horner, 2009). Therefore, the board's involvement in CEO succession is of central concern in understanding corporate governance.

CEO dismissal represents one phase of the two phase process of CEO succession, the initial phase being hiring a CEO. Organizational scholars recognize the importance of understanding both phases, as knowledge of these somewhat separate processes informs understanding of the more general process of CEO succession. CEO succession is seen as a process for bringing about organizational change (Fama, 1980; Grusky, 1960), provides evidence of the underlying power structure within the organization (Boeker, 1992; Zald, 1965), and has long term implications for the firm (Haleblian & Rajagopalan, 2006). Because CEO dismissal is antecedent to CEO succession and is uniquely subject to actions of the board typically in response to declining organizational performance, understanding board characteristics that are antecedent to CEO dismissal is a sound and valid avenue of scholarly inquiry (Allen & Panian, 1982).

Performance and CEO dismissal

Poor firm performance is seen as the primary reason for CEO dismissal. Some scholars report that large, significant decreases in operating performance preceded forced top management resignations, which were subsequently followed by large performance improvements (Denis & Denis, 1985). Salancik and Pfeffer (1980) demonstrated that ownership mediates the relationship between executive tenure and performance. CEO tenure was unrelated to performance for owner managed firms, positively related to profit margins for externally controlled firms, and positively related to stock market rates of return for manager controlled firms. Examining evidence on CEO turnover from 1971 to 1994 Huson and colleagues (Huson, Parrino, & Starks, 2001) observed that the nature of CEO turnover had changed. For example, the frequencies of CEO turnover and outside succession had increased. However, the association of the likelihood of forced turnover and firm performance did not change significantly over the period despite substantial changes in internal governance mechanisms. James and Soref (1981) concluded that poor profit performance appears to be an effective constraint on the behavior of both manager- and owner-controlled firms.

On the other hand, some scholars report that replacement of the CEO typically does not lead to performance improvement (Wiersema, 2002). In addition, in his study of general manager turnover in major league baseball, Grusky (1960) observed that the new organizational policies associated with new leadership lead to substantive changes in organizational structure causing forceful adaptation by organization members as well as adaptation to a wide variety of "informal coalitions" (p. 107) that typically develop.

In spite of its relatively infrequent occurrence (James & Soref, 1981), CEO dismissals are becoming increasingly common in instances of declining firm performance. CEO tenure at publicly listed firms averages less than six years (Kaplan & Minton, 2011; Terjesen, Hellerstedt, Andersson, Wennberg, 2013) compared to an average of fourteen years three decades ago (Vancil, 1987). Hadlock and Lumer (1997) observe that the rate of top management turnover and sensitivity of turnover to stock returns have increased considerably since the 1930s and that management incentives under board control have become stronger over the ensuing eighty years. In addition, new CEO appointments increasingly involve outside successors, and the incidence of outside CEO succession has increased from 11-15% in the 1970s to 36% in the late 1990s (Wiersema, 2002).

On balance, the evidence of poor performance as an antecedent of CEO turnover is rather robust. However, the variance explained is always less than 50% and typically lies in a range from 10-20% (Finklestein, Hambrick, and Cannella, 2009). In fact, in a model of social and political factors predictive of the likelihood of CEO dismissal, Frederickson and colleagues (Fredrickson, Hambrick, & Baumrin, 1988) propose that the link between firm performance and CEO dismissal is indirect and mediated by certain characteristics of the board, the existence (or absence) of a succession plan, and the power of the incumbent CEO. Hence, performance plays a prominent albeit weak role in CEO dismissals supporting the agency theory view that boards of directors generally comprise a secondary control system that is activated upon the failure of the primary control system, i.e., management (Johnson, Hosskison, & Hitt, 1993).

Corporate Governance and Human Capital

Human Capital

Human capital refers to an individual's expertise, experience, knowledge, reputation and skills (Becker, 1964; Coleman, 1988; Hillman & Dalziel, 2003). Human capital theory distinguishes among team level, firm level, and industry level experiences (Kor & Sundaramurthy, 2009). Some human capital is generic (e.g., education), and some is firm-specific (e.g., procedures, routines, practices) (Hatch & Dyer, 2004). Human capital may be reallocated across firms resulting in some appropriation, but reallocation also involves "dynamic adjustment costs" (Hatch & Dyer, 2004: 1156) in adapting the use of the reallocated human capital to its new context (Cappelli & Singh, 1992; Hatch & Dyer, 2004, Mahoney and Pandian, 1992; Mahoney, 1995; Penrose, 1959; Prescott & Visscher, 1980; Teece, Pisano, & Shuen, 1997). Boards of directors represent a confluence of human capital singularly focused on the overall direction of the respective focal firm suggesting the existence of a type of human capital that is uniquely oriented toward corporate governance.

Governance Human Capital

Governance human capital is the capacity of directors and their respective boards to provide to the focal firm unique skills and expertise in corporate governance. Resulting from the separation of decision management and decision control, firm management is singularly responsible for strategy formulation and implementation (decision management) while the board's focus is on ratification and monitoring of strategy (decision control) (Fama and Jensen, 1983). More specifically, governance human capital consists of the set or bundle of skills, knowledge, and perspectives that outside directors collectively bring to the board. Experience developed at their home firms combined with additional experiences gained through their external connections developed through multiple board appointments and industry experiences may represent valuable human capital because they help the focal firm access critical resources and initiate new business relationships (Burt, 1992; Hillman, 2005, Pfeffer, 1972). Membership on multiple boards also helps directors develop general governance human capital through exposure to a wide variety of strategic and governance issues developing a rather "cosmopolitan view" of strategic and management issues (Useem, 1984: 48).

Hillman and Dalziel (2003), using the term board capital, identify four benefits of governance human capital. First, board, or governance human capital, provides a firm the benefits of directors' advice and counsel resulting from their expertise and skill. Second, governance human capital brings legitimacy to the focal firm through directors' membership within the corporate elite (Finkelstein, 1992; Useem, 1979). Third, governance human capital improves communication both internally and with external constituents through directors' timely and valuable information thereby reducing transaction costs. For example, information and expertise from service on other boards enhance the efficiency of governance by affording boards the capacity to "economize on governance costs" (Carpenter & Westphal, 2001: 654) through investments in time and effort on other firms' boards that increase the "return" on the time and attention invested in monitoring activities. Fourth, governance human capital improves the focal firm's access to resources including financial resources and influence with political bodies and other important stakeholder groups.

Context specific experiences may enhance the value of governance human capital directors bring to the focal firm. For example, governance scholars have demonstrated how directors' strategic experience at their home firms can influence strategic changes at the focal firms (Westphal & Fredrickson, 2001). In addition, research demonstrates how directors' human capital in the form of prior acquisition-related experience impacts the focal firm's acquisition outcomes (Kroll, Walters, & Wright, 2008; McDonald, Westphal, & Graebner, 2008).

In summary, governance human capital provides a number of benefits to focal firms, although its impact is difficult to assess, its measurement difficult, and the direction of its effects likely non-monotonic or dependent on context (Johnson, S., Schnatterly, & Hill, 2013). In addition, the literature suggests that some governance human capital, like other forms of human capital (Kroll et al., 2008), may be firm-specific and not necessarily transferrable to other firms' boards (Hatch & Dyer, 2004). A key source of governance human capital that directors bring to the board comes from their experiences both as managers at their home firm and as directors on the boards of other firms. These contexts result in rather unique perspectives on strategic leadership (Mintzberg, 1973) stemming directly from formulating and implementing the strategies of the firms they manage as well indirectly from ratifying and monitoring the strategies of firms on whose boards they serve.

Strategic Leadership and Governance Human Capital

Work of some scholars (Giddens, 1975; Haunschild, 1993; Hillman & Dalziel, 2003; Kim & Cannella, 2008; Kor & Sundaramurthy, 2009; Mizruchi, 1988; Mizruchi & Stearns, 1988; 1994; Scott & Meyer, 1983; Useem, 1979) suggests that membership in the managerial elite is largely a function of social capital by virtue of the inter- and intraorganizational relationships leaders cultivate over time. However, the content of those relationships may also be a source of human capital. Attainment to the ranks of the managerial elite occurs at least in part to a certain level of performance through leadership expertise. Therefore, it seems plausible that expertise – that is, human capital – precedes social capital.

With respect to governance, upper echelons, and the corporate elite, leadership involves a certain amount of general and specific human capital. Knowledge of general management (that is, knowledge about and responsibility for overall direction of an entire organization) may be considered general human capital (Le, Kroll, & Walters, 2013) to the extent that management is a generic process applicable across multiple contexts. More specifically, general management, or strategic leadership, may be characterized by three key activities unique to the domain of organizational leadership (Finkelstein, Hambrick, & Cannella, 2009): 1) interaction with a focal firm's board (through a top managerial role at the focal firm), 2) interaction on other firms' boards as outside director, and 3) a position as a strategic leader in one's focal firm.

First, service as a top executive at an individual firm likely entails the exercise of some level of authority over and responsibility for strategy formulation and implementation requiring direct and indirect interaction with the firm's board of directors. In the processes of developing and executing strategy, top executives whether board insiders or not are frequently called upon to make presentations and provide a variety of types of information to the board (Carey & Ogden, 2009). Second, strategic leadership often entails service on the boards of other firms as an outside director. Bacon & Brown (1973) argue it takes 3-5 years for directors to gain adequate understanding of firm and its operations (Kesner, 1988). This type of experience adds to strategic leaders' pool of knowledge by affording the opportunity to oversee the formulation and implementation of strategy. Thus, experience both as a top executive at a firm and as an outside director at another firm affords strategic leaders involvement in all four stages of decision making and decision control – formulation, ratification, implementation, and monitoring (Fama & Jensen, 1983). Finally, service as a top executive involves experience close to the locus of overall direction of the activities of an entire organization and membership in the firm's dominant coalition (Cyert & March, 1963). The general management skills developed as an organizational leader complement the governance skills allowing greater transferability of leadership from a context of management to a governance context through involvement in decisions of considerable organizational significance and in dealing with powerful personalities and egos and diverse opinions. Hence, experience at the apex of organizational decision making and decision control provides management and governance expertise that enhances an individual's general management capabilities and general governance capabilities. It is likely these human capital capabilities that organizational scholars are attempting to capture in such constructs as age, firm tenure, board tenure, and number of directorships (Bluedorn, Johnson, Cartwright, & Barringer, 1994).

Types of Governance Human Capital

Governance human capital may be composed of different types as suggested by a recent review of emerging scholarship on corporate governance (Johnson, S., Schnatterly, & Hill, 2013). These varying types include CEO experience, financial or venture capital experience, industry knowledge, familiarity with specific events (Kroll et al., 2008), and overall focal firm familiarity.

Directors who are CEOs in their own right at other firms are deemed by governance scholars to bring valuable experience to other firms on whose boards they serve, although the mechanisms through which these benefits work is not yet clear (Johnson, S. et al, 2013).

Directors with financial expertise may affect a range of issues including financial structure (Mizruchi & Stearns, 1994; Stearns & Mizruchi, 1993) and earnings management (An & Jin, 2004). Directors who are venture capitalists (VCs) may provide specific governance human capital benefits to firms on whose boards they serve. For example, higher percentages of VC directors are more likely to make top management team (TMT) changes (Boeker & Wiltbank, 2005; Bruton, Fried, & Hisrich, 1997), VCs were associated with stronger corporate governance (Filatothchev, Wright, & Arberk, 2006), and positively associated with post-IPO financial performance (Kroll, Walters, & Le, 2007).

Director experience in specific industries may provide the focal firm with certain governance human capital benefits stemming from such industry experience. For example, board industry experience has been shown to be positively associated with sales growth (Kor & Sundaramurthy, 2009), stock market reactions following acquisitions (Walters et al., 2008), and CEO successions (Tian, Haleblian, & Rajagopalan, 2011). In addition to these rather broad experience-based types of governance human capital, directors may also provide benefits to the firms on whose boards they serve through experience with specific activities. For example, prior acquisition experience has been shown to be associated with focal firm post acquisition performance (Kroll et al, 2008; McDonald et al., 2008). Generally, specific experiences impact decisions related to such experiences and their subsequent outcomes.

In addition to the experience directors bring to the focal firm, the variety of experiences at the board level may also impact the focal firm's collective governance capital resulting in greater governance human capital heterogeneity. For example, Goodstein and colleagues (Goodstein, Gautam, & Boeker, 1994) found that a mix of occupations among members of the board inhibits strategic change allowing greater CEO control (Alexander, Fennell, & Halpern, 1993). On the other hand, human capital heterogeneity among board members was positively associated with adoption of outcome-based controls for evaluating the CEO (Beekun, Stedham, & Young, 1998). The literature suggests at least two explanations regarding the impact of heterogeneity on board processes: the effect is non-linear (Golden & Zajac, 2001) and effects are evident only if the board is willing and able to act (Hillman & Dalziel, 2003; Johnson, S. et al, 2013). Occupational heterogeneity is only one relevant aspect of governance human capital, and these elements may be in need of independent consideration.

Governance Human Capital and CEO Dismissal

Governance Human Capital of CEO Directors

CEO directors bring unique perspectives to the boards of other firms where they serve as directors. They have "sat on both sides of the boardroom table" and faced the potential of discipline by the board as well as the social interaction that typically occurs among corporate elites (e.g., Westphal & Bednar, 2005). Furthermore, governance scholars have demonstrated how directors with CEO experience can impact firm outcomes. For example, Fahlenbrach and colleagues (Fahlenbrach, Low, & Stulz, 2010) reported a positive stock market reaction to appointment of directors with CEO experience. Tian and colleagues (Tian, Haleblian, & Rajagopalan, 2011) note that the presence of directors with CEO experience is an important component of board effectiveness. In fact, scholars note that CEO experience is an important source of business expertise (Bianco & Byrne, 1997; Hillman, Cannella, & Paetzold, 2000) benefiting a wide range of board decisions, and among these may be the decision to dismiss a CEO. CEO directors likely present a more highly visible public profile, especially among large investors, analysts, and the corporate community creating a need to maintain their legitimacy and prestige (Arthaud-Day, Certo, Dalton, and Dalton, 2006; Finkelstein, 1992; Hillman & Dalziel, 2003; Pfeffer and Salancik, 1978; Selznick, 1949).

CEO directors' human capital is largely based on their perspectives within the institutional environment (Scott & Meyer, 1983), among the corporate elite (Useem, 1979), from their formal authority within an organization (Giddens, 1972), or from connections to other organizations through director ties (Mizruchi, 1988; Mizruchi & Stearns, 1988; 1994). The confluence of these qualities, while a general source of human capital for most strategic leaders, may be singularly unique in the context of boards of directors. Although a leader's position among the corporate elite is likely a key factor in an appointment to any strategic leadership position, it is typically more heavily weighted in board appointments than in appointments to a top management post (Horner, 2009). Indeed, a central notion of the resource dependence perspective (Pfeffer, 1972a, 1972b, 1973, 1981; Pfeffer & Salancik, 1978) is that prestigious individuals are recruited as directors to enhance the legitimacy of the focal firm. Hence, the position of the board and its individual directors is a key component of governance human capital due to the importance of information directors often bring to the firm through external interconnections (Haunschild, 1993). Such formal and informal connections with and authority within organizations in the focal firm's institutional environment may be sources of external information that, when included as inputs to the focal firm's information processing system, lead to a reduction of uncertainty for the focal firm. CEO directors' needs to maintain the legitimacy and currency of their human capital may increase the due diligence with which they discharge their fiduciary duty (Monks & Minow, 2001) and tend to make them more effective monitors. Accordingly, under conditions warranting CEO dismissal, CEO director membership on boards will be positively associated with dismissal of the focal firm's CEO.

> Proposition 1: CEO director membership on the board of directors will increase the likelihood of CEO dismissal.

Governance Human Capital of Directors with Financial Expertise

The financial backgrounds that individual directors bring to the board may be a key aspect of governance human capital, especially with respect to financial industry experience. For example, Mizruchi and Stearns (1994) noted that the presence of a financial institution representative on the board was a strong predictor of focal firm borrowing. They surmised that consistent with the resource dependence perspective (Pfeffer & Salancik, 1978; Hillman, Cannella, & Paetzold, 2000; Hillman & Dalziel, 2003) and supporting the finance hegemony model and agency theory that lending by financial institutions was more likely when loans were more readily monitored due to the presence on the board of a financial institution representative. In addition, Stearns and Mizruchi (1993) noted that the type of financial institution represented on the board affected the type of borrowing by the focal firm. Furthermore, Jensen and Zajac (2004) note that functional background, especially a finance background, influences a director's strategy preferences. Therefore, directors with a financial institution background may be more likely to discipline management on the basis of short term financial performance.

> Proposition 2: The level of board financial industry human capital will increase the likelihood of CEO dismissal.

Systems of management control vary by type and level of diversification (Hill & Hoskisson, 1987). Strategic controls based on operational understanding of proposed divisional strategies tend to be associated with related diversification, whereas financial controls based on financial performance measures such as return on investment (ROI) tend be associated with unrelated diversification (Baysinger & Hoskisson, 1990; Hill & Hoskisson, 1987; Hoskisson, Hitt, & Hill, 1993; Lee, Park, & Shin, 2009). This occurs because beyond a certain level of diversification, corporate managers tend to implement financial controls that reduce their information processing requirements (Hill & Hoskisson, 1987). In single business or dominant business firms, corporate managers may be able to emphasize strategic control due to the small number and similarity of the firm's divisions. However, in related linked and unrelated firms, corporate managers may lack first-hand knowledge of the operational issues of a division's industry, technology, and product or geographic markets. In such firms, corporate and division managers may have multiple and potentially conflicting goals. Increased complexity and information processing requirements may result in a high level of causal ambiguity leading corporate managers to rely increasingly on the use of authority and rule-based controls rather than on operational understanding of divisional strategies (Gupta, 1987; Ouchi, 1980). Hence, related and unrelated diversification strategies require different sets of management skills and types of control (Hoskisson & Hitt, 1988; Hitt, Hoskisson, Johnson, & Moesel, 1996; Johnson et al., 1993), and may also require different types of governance related skills based on the collective experience of board members. Given the association of financial controls with unrelated diversification and directors with financial industry expertise, it is likely that the greater the level of diversification of the focal firm and the greater the representation of financial industry expertise on the board of directors, the greater the likelihood of CEO dismissal.

> Proposition 2a: The greater the level of unrelated diversification of the focal firm, the higher the association between board financial human capital and the likelihood of CEO dismissal.

Governance Human Capital of Directors with Related Industry Experience

Human capital is comprised of general and specific knowledge (Becker, 1964, Dimov & Shepherd, 2005; Hatch & Dyer, 2004; Nonaka, 1994). General knowledge is deployable across various contexts, while specific knowledge is deployable in a given firm or industry (Amit & Schoemaker, 1993; Le, Kroll, and Walters, 2013), suggesting that specific human capital is socially complex. Human capital stems from experience and is not simply internalized but develops through socially interactive processes of practice and participation. It is not simply an accumulation of facts but occurs within a community of practice (Turvani, 2001). In addition, specific human capital is imperfectly reallocated to new contexts suggesting that its value depends on social context and is bound by specific social community (Turvani, 2001) such as that occurring within the context of a board of directors. Industry experience may represent valuable human capital by helping the focal firm access critical resources and initiate new business relationships (Burt, 1992; Hillman, 2005; Pfeffer, 1972) and may increase the level of communication (Smith, Smith, Olian, Sims, Jr., O'Bannon, & Scully, 1994). In fact, functional expertise in the focal firm's industry may contribute to the quality of governance (Johnson, Hoskisson, & Hitt, 1993). Kesner and Sebora (1994) suggest that the concept of industry or contextual familiarity could make an outsider seem more like an insider. Although applying this concept to executive succession, it may also hold true for other types of strategic leaders such as directors. The greater the level of industry human capital on the board, the greater the board's insight into industry-specific factors affecting performance and the greater the board's understanding of strategic issues facing the firm. Because of this enhanced insight into both industry and firm factors affecting firm outcomes, the greater the likelihood that the board will rely on strategic (Baysinger & Hoskisson, 1990; Hill & Hoskisson, 1987; Hoskisson, Hitt, & Hill, 1993), or behavioral controls, in evaluating the CEO's performance. Accordingly, the board will tend to more equally weigh the financial performance of the firm with an understanding of strategies the CEO pursues based on an understanding of the firm's strategic context. This will tend to reduce the likelihood of CEO dismissal under conditions that might warrant such dismissal.

> Proposition 3: The higher the level of industry experience on the board, the lower the likelihood of CEO dismissal.

Discussion

Research on corporate boards has focused heavily on the impact of boards of directors on firm outcomes. The question fundamentally driving this line of research addresses the issue of board effectiveness on firm financial performance. Much of this research has been based primarily on agency theory models of board independence from management emphasizing the participation of non-employee, or outside directors (Jensen & Meckling, 1976). This perspective based on the structural position of directors (Jensen & Zajac, 2004) has yielded mixed results prompting scholars to move beyond such position-based approaches to developing finer-grained examination of the characteristics of individual directors and collectively of those of the board. Such approaches emerging from this line of inquiry include board demography and human and social capital (Johnson, S., et al, 2013).

Within this broader-based investigation is an emerging body of scholarship using human capital theory (Becker, 1964) to examine boards of directors' individual and collective expertise, experience, knowledge, reputation and skills on a variety of firm outcomes including that investigated here: CEO dismissal. Such investigations based in human capital theory may provide broader understanding of board effectiveness. Notions of governance human capital may provide a fuller explanation of research using the position-based approach of agency theory buy describing how governance human capital results from the experience, skills, expertise, knowledge, and reputation that develop from directors' perspectives by virtue of their position with respect to the focal firm. In this way, human capital theory notions of governance human capital intersect with agency theory by confirming the importance of outsiders but more fully examining their characteristics such as CEO-directors, directors' financial expertise, and related industry background.

This study posits the impact of governance human capital on CEO dismissal. Specifically, board human capital based on CEO directors' membership on the board, board financial industry expertise, and related industry expertise are proposed to have varying impact on CEO dismissal. CEO directors are seen as particularly valuable due to the relevance and currency of their human capital, their position within the managerial elite, and their first-hand knowledge and experience in dealing with external contingencies (Geletkanycz & Boyd, 2011) which provides them with a unique perspective from which to view both their home firm and the focal firm in a unique light. Board financial industry human capital provides the firm with the perspectives of the financial markets as well as from the standpoint of the financial conception of organizational control (Fligstein, 2001). Finally, related industry expertise provides the firm with knowledge of the common routines, practices, and paradigms (Pfeffer & Moore, 1980) prevailing in the focal firm's industry.

Limitations

A limitation of the approach proposed here is that it attempts to consider human capital separately and independently from social capital. It may be that they should be considered only in concert with one another. Stevenson and Radin (2009) found board internal social capital to be a stronger influence on board decision making than on board human capital. In addition, a recent review of board research suggests that board capital is composed of multiple human and social capital elements and should be considered interdependently. Thus, separating the two in examining board effectiveness may result in an underspecified model particularly inasmuch as the types of human capital addressed here are particularly socially complex. Another limitation of the current study is that CEO directors may bring more to the board than their general management and governance experience. Board acquisition experience shows statistically significant effects on post-acquisition experience prompting the researchers to suggest that directors with experience in specific contexts may be more effective monitors (Kroll, Walters, & Wright, 2008). Thus, CEO directors may bring context specific experience that is more substantively significant than simply their general governance human capital. Furthermore, CEO director human capital likely incorporates financial expertise and related industry experience suggesting the possibility of multicollinearity. Finally, considerations of CEO dismissal likely require inclusion of characteristics of the incumbent CEO in which case exclusion may result in an underspecified model.

Conclusion

Scholarly inquiry into corporate boards has yielded a wide range of results and added considerably to the wealth of knowledge about corporate governance and its impact of firm outcomes. These efforts have more completely specified the boundary conditions of agency theory while developing additional theoretical frameworks that shed additional light on agency-theoretic processes and outcomes. In the process of expanding the bounds of scholarly understanding of corporate governance, it becomes clear that there is much yet to be discovered through theoretical and empirical inquiry.

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